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## BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman  
 BOB STUMP  
 SANDRA D. KENNEDY  
 PAUL NEWMAN  
 BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF  
 ARIZONA PUBLIC SERVICE COMPANY FOR  
 A HEARING TO DETERMINE THE FAIR  
 VALUE OF THE UTILITY PROPERTY OF  
 THE COMPANY FOR RATEMAKING  
 PURPOSES, TO FIX A JUST AND  
 REASONABLE RATE OF RETURN  
 THEREON, TO APPROVE RATE SCHEDULES  
 DESIGNED TO DEVELOP SUCH RETURN

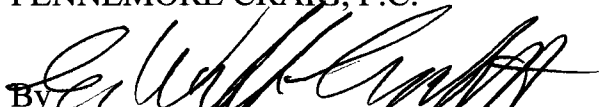
Docket No. E-01345A-11-0224

**NOTICE OF FILING  
 SUMMARY OF  
 SETTLEMENT TESTIMONY  
 (SETTLEMENT AGREEMENT)  
 OF KEVIN C. HIGGINS ON  
 BEHALF OF FREEPORT-  
 MCMORAN COPPER &  
 GOLD INC. AND ARIZONANS  
 FOR ELECTRIC CHOICE  
 AND COMPETITION**

Freeport-McMoRan Copper & Gold Inc. and Arizonans for Electric Choice and  
 Competition (collectively "AECC"), hereby submit the Summary of Settlement Testimony  
 (Settlement Agreement) of Kevin C. Higgins on behalf of AECC in the above captioned  
 Docket.

RESPECTFULLY SUBMITTED this 26<sup>th</sup> day of January 2012.

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**DOCKETED**

JAN 26 2012

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1 **ORIGINAL** and **13 COPIES** of the foregoing  
2 **FILED** this 26<sup>th</sup> day of January 2012 with:

3 Docket Control  
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7 **COPY** of the foregoing was **HAND-DELIVERED/**  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

In the Matter of the Application of Arizona )  
Public Service Company for a Hearing to )  
Determine the Fair Value of the Utility )  
Property of the Company for Ratemaking )  
Purposes, to Fix a Just and Reasonable )  
Rate of Return Thereon, to Approve Rate )  
Schedules Designed to Develop Such Return)

Docket No. E-01345A-11-0224

**Summary of Settlement Testimony**

**Submitted by**

**Kevin C. Higgins**

**on behalf of**

**Freeport-McMoRan Copper & Gold Inc. and**

**Arizonans for Electric Choice & Competition**

**on**

**January 18, 2012**

1 Mr. Higgins submitted direct testimony in support of the Settlement Agreement on  
2 January 18, 2012 and Responsive testimony on January 25, 2012.

3  
4 In his direct settlement testimony, Mr. Higgins recommends approval of the Settlement  
5 Agreement filed by Staff on behalf of the Agreement's Signatories on January 6, 2012.  
6 The proposed Agreement provides a comprehensive resolution of the issues in the  
7 Arizona Public Service Company ("APS") general rate case. In Mr. Higgins' opinion, the  
8 Agreement produces just and reasonable rates and is in the public interest. On behalf of  
9 AECC, he recommends adoption of each provision in the Agreement as a package.

10  
11 In providing a comprehensive resolution of the issues in the APS general rate case, the  
12 Agreement offers the following key benefits to customers:

- 13  
14 • It results in an overall zero dollar base rate increase versus the \$95.5  
15 million base rate increase proposed by APS in its direct filing;  
16
- 17 • It ensures a zero percent overall bill impact for the remainder of 2012  
18 versus the \$194.1 million overall rate increase proposed by APS in its  
19 direct filing – after taking account of the reset of the current Power  
20 Supply Adjustor credit to near zero that would have otherwise occurred  
21 upon the implementation of new rates by July 2012;  
22
- 23 • It requires a four-year rate case stay out, pursuant to which APS agrees not  
24 to raise base rates as a result of any new general rate case filing until at  
25 least mid-2016, whereas APS would otherwise have been permitted to  
26 file a rate case after June 1, 2013 per the terms of the Settlement  
27 Agreement approved in Docket No. 01345A-08-0172;
- 28  
29 • It includes a buy-through rate option for industrial and large commercial  
30 customers which will provide an opportunity for Arizona businesses to  
31 improve their economic health through energy cost savings – at no risk  
32 to other customers;  
33
- 34 • It provides a narrowly-tailored Lost Fixed Cost Recovery ("LFCR")  
35 mechanism in lieu of the full revenue decoupling proposed by APS,  
36 while offering an opt-out rate design for residential customers who  
37 choose not to participate in the LFCR. For customers with billing  
38 demands of 400 kW or greater, the settlement agreement addresses  
39 through rate design APS's concerns over fixed cost recovery associated  
40 with energy efficiency investments.  
41
- 42 • It provides a defined and equitable path forward for the recovery of costs  
43 associated with any acquisition by APS of Southern California Edison's  
44 share of Four Corners Units 4-5, if the Commission finds the Four  
45 Corners transaction to be prudent.  
46

- It requires APS to file a request to reduce the System Benefit Charge (“SBC”) to reflect a corresponding reduction of the decommissioning trust funding obligations collected through the SBC related to the full funding of Palo Verde Nuclear Generating Station Unit 2, which is expected to occur by the end of 2015. APS is required to make the filing in sufficient time for the reduction to occur by January 2016.

Taken as a whole, the Settlement Agreement provides meaningful protections and benefits to customers while providing APS the opportunity to earn a fair return.

In his direct Settlement testimony, Mr. Higgins discusses the treatment in the Agreement of the key issues raised in his revenue requirements and cost-of-service testimony. On certain issues, the Settlement Agreement incorporates positions advocated by Mr. Higgins in his direct testimony; on others, the Settlement Agreement reflects a middle ground; on still other issues, the Settlement Agreement incorporates positions opposed by Mr. Higgins in his direct testimony. Although Mr. Higgins has not changed his opinion on the latter topics as isolated matters or when these topics are viewed in the context of APS’s initial application, he has concluded that the overall settlement package contains enough benefits to customers that it is in the public interest to move forward with this entire package, including certain items with which he may disagree in isolation.

In conclusion, Mr. Higgins and AECC are fully supportive of the entire Settlement package and respectfully recommend its approval by the Commission.

In his responsive testimony, Mr. Higgins recommends that the Commission reject each of the proposed changes to the Settlement Agreement advocated by Mr. Cavanagh and Mr. Schlegel. In particular, he recommends that the Commission reject the attempt by Messrs. Cavanagh and Schlegel to impose revenue decoupling on APS and its customers.

Through its support of the Settlement Agreement, APS has concluded that the combination of LFCR mechanism and rate design improvements in the Agreement sufficiently removes the Company’s financial disincentives to meet the Commission’s standards. By itself, this is sufficient grounds to refrain from imposing decoupling: if the entity whose financial interest is intended to be protected by decoupling concludes that decoupling is not necessary, there is no good reason to impose decoupling against the will of customers.